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Report

drawn up on behalf of the Committee on External Economic Relations

on the ~~Agreement~~ between the EEC and the Lebanese Republic

Rapporteur: Mr P.B. COUSTÉ

By letter of 1 February 1973 the Committee on External Economic Relations requested authorization to draw up a report on the Agreement between the EEC and the Lebanese Republic.

Authorization was given by the President of the European Parliament in his letter of 8 February 1973.

The committee appointed Mr COUSTE rapporteur on 22 February 1973.

It considered the draft report at its meeting of 19 February 1974 and unanimously adopted the motion for a resolution and the explanatory statement with 1 abstention.

The following were present: Mr de la Malène, chairman; Mr Thomsen, vice-chairman; Mr Cousté, rapporteur; Mr Baas, Mr Dewulf, Mr Kaspereit, Mr Klepsch, Mr Lange, Lord Lothian, Mr E Muller, Sir John Peel.

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A

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the Agreement between the European Economic Community and the Lebanese Republic

The European Parliament,

- having regard to the Agreement between the European Economic Community and the Lebanese Republic, signed on 18 December 1972, and to the Protocol to this Agreement signed on 6 November 1973,
 - having regard to the report of the Committee on External Economic Relations (Doc. 380/73),
1. Welcomes the signature of the EEC-Lebanon Agreement and the Protocol to this Agreement and approves its content;
 2. Stresses the political importance of the Agreement as a means of implementing the global Mediterranean policy being formulated by the Community;
 3. Approves the setting up of a Joint Committee under the Agreement and hopes that within this committee the two parties will consider ways and means of extending their cooperation to the financial sector;
 4. Hopes that the Agreement will enter into force in the near future once the parties concerned have completed the ratification procedures;
 5. Invites the appropriate committees to follow developments in commercial and economic relations between the EEC and the Lebanon and to report on this matter in due course;
 6. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTINTRODUCTION

1. On 18 December 1972 the European Economic Community (of Six) and the Lebanese Republic signed a five-year preferential trade agreement, reflecting the desire of both parties for closer economic and commercial relations.

Until then, these relations had been governed by an agreement of much narrower scope 'on trade and technical cooperation between the EEC and the Lebanon'¹ signed on 21 May 1965; the main provision of that agreement was that the two parties should grant each other most-favoured nation treatment in trade and that the Six should coordinate their efforts in the field of technical cooperation with the Lebanon.

2. Since the Agreement of 18 December 1972 was signed by the original Community of Six, new negotiations had to be opened to enable the three new Member States to join in that Agreement, pursuant to Article 108 of the Treaty of Accession. These negotiations led to the signature on 6 November 1973 of a 'Protocol' under which the new Member States apply to the Lebanon the customs duties reduction percentages provided for in the Agreement of 18 December 1972.

On 18 September 1973 the President-in-Office of the Council informed the Committee on External Economic Relations pursuant to the 'Luns procedure' under which the Council informs interested committees of the European Parliament of the content of draft agreements with third countries before they are signed - of the main provisions of the 'Protocol'.

1. BASIC INFORMATION ON THE LEBANESE ECONOMY

3. Though a small country, with a low population (10,000 km² - approx. 2.6 million inhabitants in 1972) the Lebanon plays quite an important part in the economic life of the Middle East.

¹ For the content of this Agreement, see the report of the Economic Affairs Committee (Doc. 74/65) - rapporteur: Mr KAPTEYN

Its importance is largely due to its geographical situation. The Lebanon is the hub of the Arab world and the terminal point of the major oil pipelines from Saudi Arabia and Iraq. In Beirut it has a dynamic financial capital. Yet the Lebanon's economic prosperity rests on fragile foundations. With its wholly outward-looking view, the Lebanon is the first country to feel and relay the convulsions which often shake the unpredictable and unstable area around it.

4. The structure of the Lebanese economy clearly demonstrates this fragility (see table below); the primary and secondary sectors are under-developed and are largely dominated by the tertiary sector (trade, services, finance, tourism).

Distribution and growth of the Lebanese gross national product by sector of activity

(in percentages)						
<u>Sector of activity</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Agriculture, farming, fishing.....	11.6	11.4	11.2	10.2	9.5	9.2
Energy and water supply	2.2	2.3	2.4	2.3	2.3	2.3
Industry and crafts..	13.1	13.2	12.9	12.9	13.4	13.6
Building	5.7	6.0	5.1	4.5	4.7	4.5
Transport and communications	8.3	8.0	8.6	8.9	8.4	8.2
Housing	7.6	7.3	7.9	7.8	8.4	8.8
Financial services ..	3.5	3.7	3.9	3.9	3.2	3.4
Other services.....	9.1	9.2	8.8	9.3	10.1	9.9
Trade	30.8	30.6	30.4	31.8	31.4	31.4
Administration	8.1	8.3	8.8	8.4	8.6	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Although it employs about 30% of the working population, agriculture accounts for only about 10% of the Lebanese GNP.

Industry is still in its infancy and has not progressed beyond the crafts stage; it suffers from lack of natural resources and skilled labour and from the limitations of the national market (the most highly developed branches are the food industries, cement production, textiles and oil refining in Tripoli and Saïda).

5. It is not surprising, then, that the Lebanese trade balance shows a large deficit. In 1970 (latest available figures) the deficit reached 336 million dollars (for total imports of approximately 620 million dollars). During the same year, however, the balance on services showed a surplus of 293 million dollars, further increased by the inflow of funds from the 2.5 million Lebanese or persons of Lebanese extraction living abroad. As a result the balance on current account is more or less in equilibrium.

6. In 1970 the Community of Six was the Lebanon's main supplier (28% of total Lebanese imports), while the United Kingdom contributed 12.6%. In that same year, however, the EEC only took about 12% of Lebanese exports (the figure is approximately 15% for the enlarged Community) since the bulk of exports went to the Arab states, particularly Saudi Arabia which was by far the Lebanon's main customer.

The importance of close relations between the EEC and the Lebanon derives from the above facts and figures: the Lebanon must expand its exports to a large market and so reduce its high trade deficit with the enlarged EEC; the Community must maintain its positions in a democratic Mediterranean country where European influence has been predominant and still remains strong, and which offers an excellent bridgehead for opening up and developing markets in the neighbouring Arab countries.

7. The Agreement signed in December 1972 and extended by the Protocol of 6 November 1973 is designed to eliminate many of the obstacles to the expansion of EEC-Lebanese trade and thus provide it with a stronger impetus that satisfies the interests of both parties and the Community's desire to strengthen all its links with the Mediterranean states.

II. MAIN PROVISIONS OF THE EEC-LEBANON AGREEMENT AND PROTOCOL

The following are the main provisions of the five-year preferential Agreement (the reciprocal concessions granted by both parties are aimed at the gradual achievement of a free trade area).

(a) Advantages enjoyed by the Lebanon on the Community market

8. In general, duties on Lebanese industrial exports will be reduced by 55% in two stages (Article 1, Annex I of the Agreement)

- 45 % when the Agreement enters into force
- 55 % from 1 January 1974.

Since the EEC-Lebanon Agreement has still not entered into force (the Lebanese Parliament has not yet ratified it), the timetable will probably have to be reviewed.

For certain products - listed in Article 2 of Annex I (aluminium products, motor vehicles) the reduction is lower (ranging from 35 to 41 %) or granted on a quota basis (70 metric tons for cotton fabrics). Finally, some products are not affected by the Community tariff concessions (certain types of woods, certain textile products, refined petroleum products).

All in all, the figures supplied by the Commission suggest that over 58 % of dutiable industrial products imported from Lebanon into the Community will be subject to tariff concessions.

Quantitative restrictions on imports of these industrial products into the Community have been lifted, except for petroleum products and textiles which were not covered by the tariff negotiations.

9. In agriculture, concessions are granted on a number of major exports from the Lebanon (covering approximately 40 % of agricultural exports to the EEC). The main concessions are as follows: flat-rate reduction of 0.5 u.a./100 kg for unrefined olive oil (under certain conditions), 40 % CCT reduction for citrus fruit, 14 or 15 % concessions for dehydrated onions and dehydrated garlic, etc.

(b) Advantages enjoyed by the Community on the Lebanese market

10. The Lebanon has granted concessions for three categories of products (see Annex II to the Agreement) which qualify for reductions of 30 % (70 % from 1 January 1974), 10 % and 6 % respectively, when the Agreement enters into force. Counting existing duty-free imports, roughly 60 % of Community exports will pay reduced or zero duties when the Agreement enters into force.

The Lebanon has also undertaken to take the necessary measures to gradually liberalize Community imports still subject to quantitative restrictions, insofar as this is compatible with its economic development (Article 3 (4), Annex II).

Specific provisions are also laid down to take account of the Lebanon's development requirements (special safeguard clauses for the Lebanon's industrial requirements).

11. The Protocol drawn up following the enlargement of the EEC, stipulates that the new Member States shall apply to the Lebanon - on the basis of duties actually applied to third countries - the percentage reductions provided for in the 1972 Agreement; this must not mean, however, that the Lebanon obtains more favourable treatment on the market of the new Member States than the original Member States.

The Lebanon, for its part, will gradually grant the new Member States the same preferences it grants the Community (the arrangements applicable to the original and the new Member States must be standardized by 1 January 1975 following the timetable set out in Article 8 of the Protocol).

12. Pursuant to Article 14, a Joint Committee is to administer the Agreement and ensure its proper execution; the committee will meet once a year but may also hold other meetings whenever necessary.

Eighteen months before the Agreement expires, negotiations may be opened with a view to concluding a new Agreement on a broader basis. Furthermore, at the request of the Lebanon, it was decided that the 1965 Agreement on trade and technical cooperation should be extended annually throughout the period of validity of the 1972 Agreement.

CONCLUSION

13. This Agreement between the EEC and the Lebanon cannot be viewed separately from similar agreements signed between the Community and other Mediterranean countries. In a Declaration annexed to the Agreement, the EEC stresses 'that its relations with the Lebanese Republic form part of the work on the definition of a global approach to relations between the Community and the Mediterranean countries, as a whole, which will be framed with due consideration to the concerns of these countries. It is prepared to reexamine its relations with the Lebanese Republic in the light of the results of this work'.

14. The Community has so far signed association agreements (pursuant to Article 238 of the EEC Treaty) with Greece, Turkey, Morocco, Tunisia, Malta and Cyprus and is negotiating a similar agreement with Algeria.

Pursuant to Article 113 it has signed a non-preferential trade agreement with Yugoslavia and has concluded preferential trade agreements with Spain, Israel and Egypt. The 1972 Agreement with the Lebanon comes into the latter category.

15. The provisions of this Agreement are broadly identical to those of the EEC-Egypt Agreement,¹ viz:

- In the industrial sector, reduction of CCT duties, liberalization of quantitative restrictions, exclusion from the Agreement of certain sensitive products;
- in agriculture, concessions for citrus fruits, onions and fresh garlic;

¹For the content of this agreement, see the report of the Committee on Development and Cooperation - rapporteur Mr Dewulf, Doc. 5/73, and the opinion of the Committee on External Economic Relations annexed to it (rapporteur: Mr Baas)

- facilities granted to take into account the Egyptian or Lebanese level of development.

We would, therefore, refer back to the comments in our committee's opinion on the Agreement with Egypt, with special reference to the non-discrimination provisions, which are identical in both cases.

16. We would, however, like to make the following points:

- the structures of the Lebanese economy differ substantially from those of other Mediterranean countries, especially Egypt, which is an essentially agricultural country where the average per capita income is considerably lower than in the Lebanon;
- agriculture and industrialization for which Community tariff concessions, have been granted, still play only a marginal role in Lebanese economic life;
- the preferences granted to Lebanese (and Egyptian) industrial exports are limited compared to those accorded to other Mediterranean countries (such as Morocco and Tunisia which have obtained exemption from duties).

17. Despite these limitations the Agreement with this genuinely democratic country is of great political importance to the Community's Mediterranean policy. Situated at the crossroads of different civilizations and religions, the Lebanon thus occupies a special place within the Arab world and plays a role out of all proportion to its size and population. That is why our committee welcomes this Agreement which, once it has entered into force, will strengthen the economic and commercial bonds between the two parties and thereby help to establish closer relations at all levels, political, economic, social, human, etc. between the Community and the Mediterranean world to which it is linked by past traditions and present interests.